Endeavour Silver Corp.

Full Year 2023 Financial Results

Conference Call Transcript

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Speakers: **Galina Meleger**
Vice President, Investor Relations

Dan Dickson
Chief Executive Officer

Donald Gray
Chief Operating Officer

Elizabeth Senez
Chief Financial Officer

Operator:

Thank you for standing by. This is the conference Operator. Welcome to the Endeavour Silver Corp. Full Year 2023 Financial Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Galina Meleger, Vice President of Investor Relations. Please go ahead.

Galina Meleger:

Thank you, Operator, and good day, everyone.

Before get started, I ask that you view our MD&A for cautionary language regarding forward-looking statements and risk factors pertaining to these statements. Our MD&A and financial statements are available on our website at www.edrsilver.com.

With us on today's call is Dan Dickson, Endeavour Silver's CEO, as well as Elizabeth Senez, our Chief Financial Officer, and Don Gray, Endeavour's COO. Following Dan's remarks, we will then open up the call for questions.

Now, over to Dan.

Dan Dickson:

Thank you, Galina, and welcome, everyone.

As we commence this year's earnings call, I think it's important to acknowledge the dynamic landscape that shaped the mining sector in 2023. Rollercoaster market forces led to volatile and lower equity prices. These events negatively impacted company valuations across the precious metals sector, creating a significant disconnect from the underlying commodity prices. With this broad market backdrop, we navigated higher operating costs, adding complexity to our operations. This theme was apparent for all Mexican mining firms, which saw cost pressures across multiple channels.

To put this into perspective, I'll provide some key data points. Over the last three years, the Mexican Consumer Price Index surged by more than 21%, and was amplified within our industry as key inputs, such as steel, reagents, and other consumables, were impacted by supply constraints. Furthermore, from Q4 2021 to Q4 2023, the Mexican peso strengthened by nearly 20% against the U.S. dollar and had cascading it back on our in-country purchases and labour costs.

As I look back on the year, I can confirm that our Operations Team displayed unwavering dedication navigating these challenges. Today, I don't want to just reflect on these challenges, but to emphasis the strategic initiatives we've implemented to ensure the growth and success of our Company.

On a consolidated basis, this year, we produced 8.7 million silver ounces equivalent metal, which met guidance, after two consecutive years of exceeding production guidance. Production was near the lower end of the guidance range, with a production shortfall in Q3 largely due to mine resequencing changes we implemented to improve ventilation and, ultimately, worker safety. This temporary disruption in our operations resulted in a reduced mine output and ore grades.

I'm pleased to say Guanacevi's performance improved significantly in the fourth quarter, as the planned improvements were executed extremely well and swiftly. Not only did Guanacevi's production return to historical levels, but our recovery strategy more than met expectations, as silver grades, gold grades and plant throughput exceeded our estimates. The plant refurbishments, completed at the beginning of Q4, enhanced our operational flexibility to exceed the historical throughput of 1,200 tonnes per day. These improvements and enhancements led to escalated costs in the second half; however, cost metrics significantly improved in Q4. While Guanacevi had its challenges in Q3, Bolanitos' performance remained steady, with increased silver production offset by lower gold production in the fourth quarter.

From a financial standpoint, for the year, we reported revenue of $206 million, with cost of sales of $169 million, for operating earnings of $37 million and mine operating cash flow of $40 million. After exploration, G&A, and other investment expenses, we reported a net income of $6 million, or $0.03 per share. For the year, Guanacevi delivered $14.3 million of mining free cash flow and Bolanitos delivered $2.5 million.

Our cost of sales increased 6%, compared to the previous year. While there were a number of drivers, a strong Mexican peso and inflationary pressures on consumables were the two most impactful. Again, these two factors, with lower than planned ore grades mined due to the mine resequencing in Q3, contributed into elevated cost metrics for the year, with cash costs and all-in sustaining costs at $13.49 and $22.93 per ounce, respectively. Both metrics were higher than we originally guided; however, the fourth quarter gave us some footing, as costs came down significantly from Q3. Our fourth quarter cash costs and all-in sustaining costs were $12.54 and $21.48 per ounce, respectively. The remediation efforts extended into early Q4, and the positive momentum on these initiatives are expected to carry forward.

Looking to 2024, containing costs and finding efficiencies will remain in focus. While we continue to experience inflationary pressures and strong local currency, we are aggressively implementing business improvement initiatives to mitigate these headwinds.

As of year end, we had cash of $35 million and a working capital of $43 million. Cash decreased in Q4, as funds were spent on the development activities at Terronera and long-term prepaids went up significantly as we placed deposits with contractors and equipment. Working capital has fallen as we continue to invest in the Terronera project. With this investment, we've built up our non-current assets, including $22 million in construction deposits related to the Terronera build and $23 million in value-added tax. The IVA receivable has been submitted for processing and the Company is working with authorities on timely collection. However, we conservatively classify these as non-current assets until collection starts.

As per requirements under the $120 senior secured debt facility, we must primarily self-fund development through cash on hand before drawing on the facility. As such, we are well positioned to satisfy the financing requirements for the project and are expecting to complete our first draw in March. During Q4, 23 raised gross proceeds of $39 million through the ATM and another $24 million was raised subsequent to year end to ensure there is sufficient funding in place for the development of Terronera.

When you add all this up, we have sufficient capital and we're confident that the actions we've taken will see Terronera through the finish line, while also supporting the high-value organic growth initiatives in place at Pitarrilla. As a reminder, Pitarrilla is our next project in the pipeline, located in the Durango State of Mexico, and it’s one of the world’s largest undeveloped silver deposits, with nearly 600 million ounces of silver defined.

Let’s give a quick update on the construction progress at Terronera.

In January 2024, we completed a risk analysis on the project for the remaining expenditure and provided an updated initial capital cost and execution plan. Mirroring the trends we experienced at our producing mines in Mexico, we faced similar headwinds at Terronera during the construction year. The impacts of a stronger Mexican peso, ongoing inflation and tight markets for equipment and bulk materials all contributed to an 18% increase to our updated initial capital estimate, $271 million, up from $230 million.

Capital pressures notwithstanding, the pace of the project development continues to advance and is on track with previous guidance, with commissioning planned in Q4 of 2024. At the end of the year, we reached 46% completion on the overall project progress, compared to the original guidance. However, due to the adjusted weighting on the updated initial CapEx, Management estimates an adjusted 43% completion as of December 31. We had spent $122 million on direct development, while project commitments totalled $171 million, or 63%, of the updated capital budget.

During Q4, we concentrated our efforts on completing key items, including earthworks for our Upper Mill Platform, procurement of equipment and advances in plant concrete, and achieved significant progress in constructing our process plant. If you are interested in seeing photos of the construction progress, I encourage you to visit our website, under the Terronera page.

Let me provide a few recent highlights of progress at Terronera, which demonstrates our strong commitment to responsible, sustainable development, and working collaboratively with our local key stakeholders.

Starting with safety, our Taquita culture has served as a solid foundation for building a strong safety record at the project. We finished the year with no lost time accidents over 172 days of work at site, which translates to about 600,000 manhours. Specifically, we heightened safety protocols significantly, especially during the rainy season, and, notably, in Q4, when we were alerted to the imminent arrival of Hurricane Lidia along the coastline. Despite facing a Category 4 storm, our site weathered the event admirably, experienced only minor damage to exterior fixtures and some fallen trees. The robustness of our drainage system proved crucial in maintaining the integrity of the site and roads. As a precautionary measure, we suspended onsite activities to ensure the safety of our personnel. Fortunately, power and normal operations were swiftly restored within a few days. We also supported local relief efforts, with our onsite team helping local communities to recover.

Over the year, we've emphasized the importance of the efficiency of our mine development. To address this, we strategically onboarded top-tier talent and successfully transitioned to our in-house mining team after startup with mine contractors. This shift was always designed and has yielded significant development efficiencies, with notable enhancements in Q4, where we met our daily advance rate targets, facilitated by improved blasting techniques, water control and better ground conditions. As the year concluded, our cumulative underground development reached over 2,200 metres, marking a substantial 70% increase in metres, compared to Q3. The positive moment in advance rates indicates a promising trajectory forward.

During the quarter, Portal 4 incline broke through to surface and preparations are now underway to complete the portal structure in Q1 2024. The majority of construction activities have progressed well at the plant site. Currently, surface construction stands at nearly 50% completion and the advanced stage of concrete work sets the stage for commencement of vertical construction, which started in January. At year end, the concrete was nearly done in both the grinding and flotation areas, and was being prepared for the general contractor to begin structural, steel and mechanical installations. Also, during Q4, we initiated the construction of the access road connecting the Lower Platform to the tailings storage facility area and the Upper Mill Platform.

Our Terronera workforce continues to grow, with over 520 employees and contractors onsite.

On the procurement side, all major equipment was ordered by year end and the team is focused on procuring bulk materials, including structural steel, piping and electrical cable.
Lastly, on the community relations side, we continue to have full support from the municipality and continue to engage and educate the municipality as we progress at site.

Okay. So, I've touched a lot on 2023. Let's have a look at what's in store this year for Endeavour.

We enter 2024 in a solid position, both financially and operationally, with a number of strategic initiatives underway that will drive our future growth. Our production outlook anticipates gold and silver to be consistent with 2023, and managing costs will continue to be a key focus as we aim to offset the impact of rising costs.

Guanacevi and Bolanitos are mature assets, and we have plans to invest more than $30 million in sustaining capital to optimize their performance and maximize output.

Equally important, on this year's agenda, is advancing our growth profile. We have $9 million earmarked across our exploration portfolio to continue our long, successful track record of growing through the drill bit. For instance, at Pitarrilla, we hope to invest over $5 million on several initiatives. This year's plan is to conduct a 6,000 metre drill campaign to target the high-grade zones and feeder structures of the existing resource. We will use the data collected to guide our next steps, with the expectation to assess this project as an underground silver mine. Ultimately, the combination of Terronera and Pitarrilla supports our long-term vision to become a 20 million ounce senior silver producer and provides a value proposition that is best in the silver space.

With the constructive macro-backdrop for both gold and silver in place, we believe our growth strategy is well-timed and well-suited to drive outperformance for our stockholders in the coming years. I'd like to add that over the past few years, we have deliberately reinvested in the business for long-term growth. Now, with less than a year to go before Terronera comes onstream, we can expect to see the benefits of these investments accrue to our shareholders.

2024 is about execution at Terronera, which is clearly transformational. Upon completion, we expect Terronera will nearly double our production, significantly reduce our cost profile and provide substantial free cash flow for our shareholders. It's going to be an exciting year for Endeavour and our stakeholders. While we face a few more capital-intensive months ahead as we ramp up to production, we look forward to the arrival of strong, free cash flow generated in 2025.

Before opening for questions, I'd like to formally welcome Elizabeth Senez, our recently appointed CFO, to our Executive Leadership Team. Libby joined us in January, and we're thrilled to have her on our team. As a finance executive with a predominantly Latin American focus, she brings over 20 years of value in accounting corporate finance and corporate treasury to her role.

On behalf of the entire team at Endeavour Silver, I would like to also thank Christine West, our former CFO, for her many contributions to the Company over the past 16 years. Throughout her career with Endeavour, she has demonstrated incredible dedication to work and to the success of our Company. Christine, we wish you all the best in retirement.

Together, with the other members of our Management Team, we'd be happy to take your questions. Let's open up the lines, Operator.

Operator:
Certainly. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

The first question comes from Jake Sekelsky with Alliance Global Partners. Please go ahead.

Jake Sekelsky:
Hey, Dan and team. Thanks for taking my questions.

Dan Dickson:
Hey, Jake. How are you?

Jake Sekelsky:
Well, well. How are you? Just starting with AISC guidance for the year, can you speak to, or maybe quantify, the positive impact that the recent move in the gold price might have from a gold credit perspective?

Dan Dickson:

Yes. Well, for the year, just for all listeners, we'll produce about 5 million ounces of silver and about 35,000 ounces of gold. Obviously, a $100 impact on—increase in the price of gold is a significant impact from a by-product standpoint. We did our budgeting, I believe, at $1,840 for the year on gold. Obviously, today, we're sitting around just shy of $2,200. That impact, well, first of all, significantly drives down on a per ounce basis, by-product basis. Specifically, when it goes right into our cash costs and where our guidance was, it's beneficial, but I think it's still early days and we'll stick by our guidance of using $1,840.

Jake Sekelsky:

Okay, that's helpful. Then, just at Terronera, can you just touch on the remaining exposure, from a CapEx standpoint, to broader inflationary pressures and, and what else still needs to be locked in there?

Dan Dickson:

Yes, I think at this point, Jake, the inflationary pressure is probably taken away, just the fact that we've done most of our key procurement, even on bulk items, now. When we re-estimated the price of Terronera, the initial CapEx going from $230 million to $270 million, we adjusted our Mexican FX rate to 17.3 in our budget, and so as long as the Mexican FX rate stays there, I think we'll all right. Now, it just comes down to productivity at site and making sure we execute. Again, there's always going to be small headwinds, whether it's inflationary or if the peso continues to appreciate, but the impact on what's left to build over the next kind of nine months is small, as long as we produce.

Jake Sekelsky:

Got it. Okay that's all for me. Thanks again.

Operator:

The next question comes from Heiko Ihle with H.C. Wainwright. Please go ahead.

Heiko Ihle:

(Audio interference 18:36)

Dan Dickson:

Hey, Heiko. Hopefully, your question comes through. You seem a little digitized at this time.

Heiko Ihle:

(Audio interference18:46)

Dan Dickson:

Apologies, Heiko. From our end, we couldn't get what you're saying. Everything's come through digitized.

Operator, if we can maybe go to the next question and put Heiko back in queue, if possible?

Operator:

Certainly. The next question comes from Lucas Pipes with B. Riley Securities. Please go ahead.

Lucas Pipes:

Thank you very much, Operator. Good morning, everyone.

Dan Dickson:

Good morning, Lucas.

Lucas Pipes:

I'll try not to sound like R2D2, but, first, I wanted to add my congrats to Elizabeth, and then, Christine, I hope you enjoy retirement.

Dan, maybe a first question on the cost side. What else can be done, what else are you looking at to mitigate costs kind of going forward, would appreciate your thoughts? Thank you.

Dan Dickson:

Yes. At Guanacevi, we still have opportunity for productivity. In Q3, we had ventilation issues that made it extremely warm for our employees to work underground, and as we got deeper into the El Curso area, it got hotter, and in Q3 and Q4, we put through a new ventilation system and, ultimately, increased our pumping of the water that was coming out. We got a lot of benefit of that in Q4, but there is still some benefit to come in Q1, and that just comes down to productivity. When the mine got overly hot, we had to give more breaks to our employees and put them in cooling chambers to, effectively, make sure that they're operating in a safe manner. I think, at this point in time, with the ventilation and where the temperature is underground, they can work fully. So, there's productivity gains that can be gained at Guanacevi. Then, it's working across both Bolanitos and Guanacevi and making sure we're procuring and going out to a number of different vendors and trying to get some bulk work done on that, and then there's always abilities to kind of look at what we're doing from a purchasing standpoint, what we're doing from a productivity standpoint, making sure that, ultimately, our mine development is a big focus this year, that we're getting our advance rate as expecting, and putting some incentives to make sure that we're doing that as a group. So, there's a lot of little things that we can do. Obviously, they're mature assets at Guanacevi and Bolanitos and there's kind of diminishing returns over the years, but I think, with what we've seen in Mexico with regards to all those cost pressures, that we have to look at anything that's available to us to try to reduce our costs on a per tonne basis.

Lucas Pipes:

Great, thank you for that. Switching over to Terronera, where does the workforce stand today and what's kind of your employee count versus contractor labour? I think you've mentioned that as kind of a key driver of productivity and efficiency going forward. Then, in terms of the ball mill, has that been transported to the plant yet, or is that expected in Q1?

Dan Dickson:

Yes, no, for sure. To answer the first question, at December 31, we were 520 total employees and contractors. Of that 520, about 120 were direct employees. Through this year, we do expect to peak around 700 onsite.

Then, with regards to our ball mill, it's a good question. I touched a lot on Q4 and what was happening at site. Our SAG mill and our ball mill are actually already at site, and they have been placed, so it's been an exciting kind of Q1, but we'll have a full update of Q1, generally, in April, from a construction standpoint.

Lucas Pipes:

All right. Well, I really appreciate it. I'll turn it over. Best of luck.

Dan Dickson:

Thanks, Lucas.

Operator:

The next question comes from Stephen Soock with Stifel. Please go ahead.

Stephen Soock:

Hi, Dan and team. Congrats on a good quarter. My question is just more on Terronera and the underground rates. I think this was kind of a critical-path item, and great to hear they've come up so notably over the last quarter. Can you just comment on if those are tracking to your original plan or is there catchup to do there, or are you seeing additional efficiencies that you hadn't counted on at this point in the transition, and just a little more colour around how that's progressing? Thanks.

Dan Dickson:

Yes, that's a very good question, Stephen. Our plan, ultimately, is about 4 metres of advance per critical heading per day. We were able to achieve that in Q4, and we've seen that in Q1. There's always a little bit of opportunity with redesigning of our mine plan. We continually redesign our mine plan. I'd almost call it dynamic, just based on ground conditions, water flow, a number of things that we've done. We've got a very seasoned team onsite and they've been phenomenal, I would say, over the last six months. So, we are hitting our advance rate as planned, to make sure we're in commissioning for Q4 of this year.

Stephen Soock:

Perfect, great to hear. That's it for me, appreciate it.

Dan Dickson:

Thanks, Stephen.

Operator:

The next question comes from Craig Hutchison with TD Securities. Please go ahead.

Craig Hutchison:

Hi, good morning, guys. Thanks for taking my questions.

Dan Dickson:

Good morning, Craig.

Craig Hutchison:

Good morning, Dan. Maybe a similar question to Stephen's, just with regards to critical items. You guys mentioned the tailing storage facility is on the critical path, any updates on kind of where that stands, and you did mention that you're going to provide an update in Q1, but any kind of numbers you can kind of give us in terms of where the overall project sits here in mid-March, 43% at year end, kind where are you, in the 50s now, anything on that would be helpful? Thanks.

Dan Dickson:

Yes, you're correct, and maybe to kind of expand on Stephen's question, right now, we see the critical path being mine development and the tailings storage facility, and probably the tailings storage facility originally on the outset of the build wasn't expected to be a critical path item, but just on timing of when we got started on that Lower Platform and where the tailings dam is, it's right there with mine development, and happy to say that in Q1 all our work's begun on the TSF, with the expectation that that work will be done mid-year, so there's still some time around it. Again, productivity around the TSF starts off a little bit slow, but it's picked up, and, hopefully, we can make it so it's no longer a critical path item and it remains to be the mine development.

Craig Hutchinson:

Okay, and just overall progress, any updates on the sort of 43% at year end?

Dan Dickson:

Yes, like I say, we originally thought 46% and we just adjusted it to the updated initial CapEx, and right now, at December 31, we felt we were about 43%. Generally, we're adding 2% to 3% of efficiencies per month, and that's generally the plan, so were probably sitting at the beginning of March, not mid-March here, but around 50%.

I know Don Gray's on our line, our COO. Don, would you have any other colour you'd like to add to that?

Donald Gray:

Yes, thanks, Dan. Craig, we're just under 50%, and we'll have better visibility on that at the end of March, but things are moving really well at site, a lot of work going on, on the mechanical and the Upper Platform. Like Dan said, we've set the mills, and also starting to set pumps and flotation cells, and things like that, and the excavation is going well down on the Lower Platform area.

Craig Hutchinson:

Okay, great. Maybe one last question for me. You guys are planning to drawn down the debt facility this quarter, is that still on track? Will it be the full amount or will it be sort of increments of the full amount?

Elizabeth Senez:

I'll take that one. This is Libby Senez. We are planning to draw down the first draw this month, but not the full amount.

Craig Hutchinson:

Okay. Thanks, guys.

Dan Dickson:

Thanks, Craig.

Operator:

Once again, if you have a question, please press star, then one.

The next question comes from Heiko Ihle with H.C. Wainwright. Please go ahead.

Heiko Ihle:

Can you guys hear me okay?

Dan Dickson:

You sound phenomenal, Heiko.

Heiko Ihle:

I'm in my house, I don't know what happened earlier. I hung up and dialed back in, so if this question was asked, my apologies in advance. Dan, earlier on this call, in your prepared remarks, you mentioned early Q4 for commissioning. Reading into this, we're looking probably at October, or maybe early November, so seven months away. Has that timeline changed at all? I just went through the February call press release and it also just states Q4, and we probably had more like mid-Q4 in our model, and this is obviously quite a bit better. If this timeline has changed, what exactly helped move it forward, please?

Dan Dickson:

You know, Heiko, we've always publicly said that we were Q4 commissioning, and we've never indicated whether that was going to be October, November or December, and I think that buys us a little bit of time. We, initially, had planned in our feasibility study kind of a three- to six-month commissioning phase. In our model right now, maybe it's a little bit shorter than the six months and closer to that three months. But, the expectation at the outset, since April 2023 till today, is we've publicly been saying it's a Q4 commissioning for 2024.

Heiko Ihle:

Got it, okay. Building on that—and I'm just thinking out loud here—the cost curve for Terronera, obviously, has some sort of ramp associated with it. In your internal model, has anything with this ramp-up curve changed compared to where you maybe were a year or two ago, before it really started getting fully built?

Dan Dickson:

Maybe I'm not fully understanding your question. The ramp-up of the initial CapEx going from $230 million to $270 million, you're asking about the impact on our model?

Heiko Ihle:

No, no. Once it's actually in production later this year. I assume, as efficiencies at site get added within two or three or four quarters, as the whole thing ramps up, anything you're seeing, anything that changed internally over the past couple of months in what you're seeing in the cost sort of the ramp-up, like the cost per ounce?

Dan Dickson:

Yes, we haven't come out publicly, from an internal standpoint, on operating costs. Clearly, from our existing operations, we've seen operating cost pressures increase because of the Mexican peso, because of the inflation rate. Publicly, in our feasibility study, we put out an $87 cost per tonne on the operation, and, again, that was at the 1,750 tonne per day. When we announced the construction decision for Terronera, we talked about the 2,000 tone per day scenario, which brought our cost per tonne down to $80. Now, clearly, with the pressures that we've seen across the space, that $80 per tonne is probably not going to be $80 per tonne, the increase in steel prices, the increase in reagents is going to push that up. We haven't remodeled all that. As we approach operations and going into commercial production, we'll probably update the market at that time with regards to those, but just knowing the operations and where those pressures have been, I don't think it'll be significant or change the outcome of what we do at Terronera.

Heiko Ihle:

Perfect. No, that's fair. Apologies for the bad connection again, and I'll talk to you soon.

Dan Dickson:

Thank you. No apologies necessary.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Dan Dickson for any closing remarks.

Dan Dickson:

Well, thanks, Operator, and thanks to everybody attending this year's 2023 Earnings Call. Hopefully, 2024 turns out to be a wonderful year. I know, in the last two weeks, we've had a real push on gold prices and, hopefully, that translates into the silver price. I know we're still sitting close to a 90:1 ratio and, ultimately, when we see some love in the gold price, that will translate over to the silver price. It's our job to execute this year on Terronera and I think we'll have a very wonderful 2024, and, hopefully, beyond that. Thank you, and have a good day.

Operator:

This concludes today's conference call, you may disconnect your lines. Thank you for participating and have a pleasant day.